

# Vodafone business marketing analysis marketing essay



Vodafone is a well-known mobile network operator headquartered in Newbury, England. It is recognized as the largest telecommunications network company all over the world on the basis of its turnover. Currently, the company has equity interests in twenty-five countries and Partner Networks in another forty-one countries (Vodafone 2011). It is the second largest mobile telecom group throughout globe after China Mobile. The firm's success is due to its strategic capabilities and their link with significant external and internal factors.

Nowadays for surviving in an intense competition, it is essential that firms must be innovative but it is also essential to identify what makes a firm innovative. As well, it is also vital to identify that what are the resources that make a substantial contribution in a firm's innovation capabilities. In regard to business these innovation capabilities are also known as a firm's strategic capabilities. The success of a firm's strategic capabilities depends on its ability to link it with its internal and external factors that influence the setting of its business objectives and policies.

In the light of resource based theory, the strategic capabilities of Vodafone can be assessed by identifying its current resources and capabilities as a successful player in telecommunication network industry (Ordanini & Rubera 2008). Subsequently, the effects of its key resources on its strategic capabilities need to be identified in relation to its link with external and internal factors. Throughout company long history and success its resources are classified in two categories that are:

Tangible resources: The company tangible resources can be classified into four categories that are financial, physical, organisational structure and technological resources.

Intangible resources: Intangible resources can be classified into people-dependent and people-independent resources (Bakar & Ahmad 2010).

All these resources are not having same importance to company strategy as financial, structure, technological are highly important whereas physical resources is having ordinary importance to it. On the other hand, people dependent and people-independent resources like human and innovation resources and reputation and organisational culture all are having high importance to Vodafone strategy.

In regard to these resources, the company is significantly able in developing several strategic capabilities that can be analyzed with the help of its value chain activities that are primary activities and support activities (Bakar & Ahmad 2010). Activities or organisational functions direct its employees towards the development of capabilities so it is essential to identify capabilities in regard to company's primary and support activities.

One of the substantial strategic capabilities developed by Vodafone in regard to its operations is providing telecommunication services at low cost with guaranteed quality. In regard to technological development, the company have become able to exploit technological opportunity and developing and applying technologies (Donaldson & O'Toole 2007). For handling human resource management, it has developed its capabilities in concern of

recruiting and training competent personnel for technological innovation and <https://assignbuster.com/vodafone-business-marketing-analysis-marketing-essay/>

motivating & compensating all employees for more and more technological innovation (Dodourova 2003).

In regard to its infrastructure related activities, it has developed capabilities like recognizing and promoting the aspect of innovation, financing and planning for technological innovation, integrating all functional departments, evaluating technological innovation, legal support to it, and attaining essential government support to finance and protect its technological innovation (Dodourova 2003).

The discussion of company strategic capabilities and resources depict that almost all its strategic capabilities are grounded on technological innovation that are highly supported by its innovation-friendly tangible and intangible resources. Due to this extreme association between resources and capabilities, the company have become able to handle its external and internal environment that can be understood with subsequent tools like PEST and SWOT analysis:

#### PEST analysis

##### Political factors:

Several political factors related to regulations, infrastructure, and health issues affect Vodafone business objectives and policies but with its strategic capability of recognizing, financing, planning, integrating, assessing, and legal and government support it become able to effectively deal with these external issues and develop effective business strategy as per the industry trends and environment (Donaldson & O'Toole 2007).

### Economic factors:

Economic factors like high cost of licences, the bidding war for 3G and constant price wars between providers also critically affect company and its business plans but with its strategic capabilities of technological innovation Vodafone has become able to serve its customers with more surprising and advanced services (Dodourova 2003). Its technological development operations related capabilities are significantly assisting it in resolving economical issues from its external environment.

### Social-cultural factors:

Socio-cultural factors like health issues, demographics and social trends also affects company operations that it critically handled with the help of technological innovation in regard to its human resources and technology development (Lynch 2006). Technologies offered by Vodafone are assured and approved that assist it in handling health related issues and its employees are highly dedicated and committed for technological innovation that assist in handling changing demographics and social trends.

### Technological factors:

Technology related issues that affect company operations and business plans are excessive technological change in mobile phone industry, the introduction of 3G and several other advanced aspects (Dodourova 2003). All these external environment related issues are handled by Vodafone with its technological innovation capability that has been developed by exploiting technological opportunity and developing and applying technologies.

### SWOT analysis:

Another contribution of Vodafone strategic capabilities' is in concern to the management of its internal environment that is highly essential to link it up with external environment. With the help of its strategic capabilities, the company has become able to maximize its strength and existing opportunities like global experience, establish itself across several countries, exploring new technologies related to telecommunication and mobile, and increase its size of the market and as well as its market share (Bakar & Ahmad 2010).

As well, due to its technological innovation capability it has also become able to establish itself at a good global platform, standardized customer relationship management and attaining high operations margin (Dodourova 2003).

In addition to this, the company has also become able to minimize its weaknesses and threats to external environment like high capital expenditure, huge R&D and infrastructural costs, legal issues, selection of appropriate technologies, political and social regulations, and increasing competitors (McLoughlin & Aaker 2010). It has all become possible due to its strategic capabilities developed throughout its different primary and support activities and continuous support from its tangible and intangible resources.

All the above identified strategic capabilities assist firm in handling its external as well as internal factors that in turn assist it in the development of appropriate business objective and plans for present and future success of the company.

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## Critical Appraisal of Vodafone's Business Performance since 2008

Vodafone is one of the world's largest mobile communications companies on the basis of revenue. From, its inception it is operating with a vision to become communication leader in a significantly connected world (Capon 2008). In its initial year, it confronted substantial difficulties throughout its business performance but in last some years it has attained immense success due to its several distinct strategic initiatives (Sandbach 2009).

Since 2008, the company is doing quite well but still it confronted several failures related to intense competition, emergence of advances communication technologies, and continuous changes in customer preferences (Lynch 2006). For handling failures related to competition the company adopted three generic strategies for competitive advantage. For handling excessive competition and market pressure, the company made use of cost leadership strategy and differentiation in spite of focus strategy.

In regard to its problem of competition, the company cost leadership strategy was highly helpful. One critical success attained by the company in this period was to become a firm with truly international customer base (Sandbach 2009).

It become possible for Vodafone due to its appropriate strategies like differentiation and cost leadership strategy. In present also, this strategy is highly helpful for the company in dealing with the issues that may arise with number portability. Number portability means customers can switch to anyone who provides a reliable and cheapest service (Vodafone Annual Report 2010 2011). By competing on its cost leadership, Vodafone can direct <https://assignbuster.com/vodafone-business-marketing-analysis-marketing-essay/>

itself towards higher unit profits that in turn will help it in attaining competitive advantage through decreasing costs.

Another imperative success that company has attained in last 3 years is a good global platform which integrates its existing future network systems and heightens its ability to launch products with a concentration on both market speed and the ability to deliver it throughout all group network (Lynch 2006).

It is done with a strategic initiative of differentiation. The differentiation along with marketing strategy and effective marketing mix helped Vodafone in serving its customers with added value through their wide range product features and quality that is significantly different from its competitors (Curwen & Whalley 2010).

The company strategic initiatives and their success and failures can also be understood effectively with the help of BCG matrix that depicts the company's market share and growth rate:

Relative Market Share

(Cash Generation)

High Low

Stars

Multimedia messaging

Question Marks



3G

Vodafone Live

Cash Cow

SMS

Dogs

Analogue services

High

Market growth rate

(Cash Usage)

Low

Vodafone BCG Matrix

The BCG matrix depicts Vodafone's portfolio that in turn demonstrates its products stand. Boston matrix represents the company's portfolio according to where the products and services stand in regard to market share and growth (Johnson 2008). This matrix shows that the company is operating by attaining a balance. Although, it has also confronted troubles in some last years in regard to 3G and Vodafone live that can also be depicted as a 'problem child' or 'question marks'.

For effective future success in regard to the existing problems, the company should decrease its investments into its analogue services and in its place it should make use of money from cash cow 'SMS' to reconstitute the 'problem child' and maintain the star multimedia messaging in the high market share/high market growth area (Lynch 2006).

In addition to these strategy models, the company performance since 2008 can also be understood with the help of different tools of financial analysis. By analysing subsequent financial ratios in terms of liquidity profitability, efficiency and return to investors it will become easy to identify that how well company managed its performance:

#### Liquidity Ratios

**Current Ratio:** The current ratio for Vodafone decreased from 5.40 to 5.00 in 2009 and 4.99 in 2010. It depicts that in terms of liquidity this period was not as good as throughout these years the company capability to pay its liabilities has decreased (Vodafone Annual Report 2010 2011).

**Quick Ratio:** Vodafone's quick ration fall from 5.38 in 2008 to 4.98 in 2009. This in turn also decreased slightly with 4.97 in 2010. This decrease shows that since 2008, the company ability to pay current liabilities' without depending on the sale of inventory has also not attained any improvement (Luetjen & Maatwk 2011).

#### Profitability Ratios

**Gross Profit Margin:** Vodafone's gross profit margin over the three years has fallen slightly from 38.30% in 2008 to 37.00% in 2006 to a further 33.80%.  
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It is the result of uninterrupted rise in the cost of sales. Although company margins are falling but its ratios are much better than its competitors that demonstrate that industry is at its matured stage and regularly the company is making use of new marketing strategies to bring down its cost.

**Operating Profit Margin:** The company operating profit margin has fallen from 28.32% in 2008 to 14.28% in 2009 that in turn again rose to 21.32% in 2010. This was due to company approach towards market trends and existing competitors' moves (Luetjen & Maatwk 2011).

**Net Profit Margin:** The company net profit margin has fallen initially from 19.4% in 2008 to 7.51% in 2009 and afterwards it improved to 19.38% in 2010 that was due to company's use of appropriate generic strategies and marketing strategy (Vodafone Annual Report 2010 2011).

**Return on Equity:** The return to equity was also fallen from 8.83% in 2008 to 3.63% in 2009 but again with appropriate strategies' it was increased to 9.49% in 2010.

### Efficiency Ratios

**Stock Turnover:** The company stock turnover has increased continuously in the three years from 85.08 in 2008 to 99.56 in 2009 and 102.71 in 2010. This shows that throughout this three years period the company has effectively converted its stocks into revenue and as well it also made an effective use of its working capital that is critical for attaining success in present intense competitive environment (Luetjen & Maatwk 2011).

Debtor Turnover: The debtor turnover of the company has fallen slightly from 5.42 in 2008 to 5.35 in 2009 and 5.06 in 2010. It depicts that Vodafone is having high efficiency in regard to credit management.

Asset Turnover: The asset turnover of the company is almost similar in three years as it was 0.28 in 2008, 0.27 in 2009 and again 0.28 in 2010. This ratio of company depicts its performance in generating sales from the assets at its disposition.

### Investment Ratios

The Company earning per share has confronted both the increase and decrease from 2008 as in 2008 it was 12.56. In 2009 it reached at 5.84 and in 2010 it reached at 16.44. In addition to this, its price earning ration also confronted increase and decline. In 2008, it was 2.52 that increased to 3.14 in 2009 and again decreased to 1.35 in 2010 (Vodafone Annual Report 2010 2011). The company's use of appropriate strategies in comparison to its competitors assisted it in attaining this position.

With the analysis of different financial ratios of the company, it can be said that the company performance since 2008 was a mix of success and failures. In this period the company did not confronted any severe failure in spite of just some minor business and competition related troubles (Wilson & Gilligan 2005). Also, the company efforts made throughout this period were highly effective as due to this only it become able to make an effective use of its working capital.

### Development of a Potential Future Strategy for Vodafone

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With detailed discussion of company strategic capabilities and performance since 2008, it becomes apparent that company is doing very well but several times it is also troubled with intense competition and several other factors like increasing costs, emergence of advance communication technologies and changing preferences of customers (Dibb & Simkin 2010). Till now, the company made use of cost leadership and competitive strategy that significantly helped it in attaining its specific business goals and objectives but it also need to be updated continuously.

In regard to grow its position in international and global markets it is vital that the company operate with a potential future strategy that can be developed effectively with the help of Porters Diamond that in regard to Vodafone is as follows:

Porter's five forces

Subsequent five forces make a direct effect on Vodafone's strategic competitiveness that in turn will assist in determining a potential future strategy for the company:

Competitive rivalry:

In telecommunication market in which Vodafone operates competition is quite high and basically it comes from its competitors O2, Orange, T-Mobile and Virgin. In this market rivalry is high and there is no brand loyalty that exhibits that there exist little differentiation in spite of price (Dibb & Simkin 2004). For handling this rivalry and growing in international markets the company should expand its operations in more and more developing nations.

### Buying power:

In the market Vodafone is operating buying power is quite high and it could be understood with the measures of number of customers that disconnect throughout a year. This also depicts that rivalry in industry is high.

Customers have several choices and new packages in regard to new tariffs and new phones (Hitt, Ireland & Hoskisson 2009). For surviving in this kind of market it is vital to have continuous upgrade and expansion in developing countries for maintaining company position at global level.

### Power of suppliers:

In addition to high buyer power, the telecommunication market also operates with strong suppliers' power. In this regard, as Vodafone is a cost leader, it operates with margins higher than their competitors. This assist it to attract price increases from its suppliers more comfortably than its competitors (Dibb & Simkin 2010). Being an extensive, leading competitors of the mobile telephone industry, Vodafone is able to hold its supplier cost down and attain profit but this situation would not remain in long-term if company is not able to main its position in global and international markets. For this it is vital to enter different developing countries.

### Threat of substitutes

The company threat of product substitutes is low and it is due to its focussed cost leadership strategy. This strategy makes it difficult for others to produce similar products and services at a lower rate with same economies of scale (Fransman 2002).

## Threat of entry

Although the threat of new entrants in industry is low but this situation need to be maintained by Vodafone by reducing its cost below of its competitors. This could be done by maintaining eminent level of efficiency and extending its place and position in different international and global markets (KÄ±mÄ±loÄŸlu, HNasÄ±r & NasÄ±r 2010).

With the help of this porter's diamond analysis, it becomes evident that the most potential future strategy that can be adopted by Vodafone is expanding or concentrating more on developing countries. This analysis assists in identifying the suitability of selected potential future strategy. With this analysis it becomes evident that in present, Vodafone is able to maintain its position and attain significant competitive advantage with the help of focussed cost leadership strategy but the situation will not remain same in future.

In future competition will get more intense and in that environment a firm that have strong international level presence will be able to operate. So, it is quite helpful for Vodafone to operate with a strategy of concentrating more on developing countries (KÄ±mÄ±loÄŸlu, HNasÄ±r & NasÄ±r 2010). This strategy will also assist the company in increasing its profitability and cost-benefit that is related to the acceptability of a strategic option. Until or unless a strategic option s not acceptable it is not beneficial to use it. With this future strategy, the company will become able to reduce its costs and increase its benefits and shareholder value (Hitt, Ireland & Hoskisson 2009).

In addition to the suitability and acceptability of this future strategy, adoption of this strategy is also feasible. As in present also company is operating in several global locations so it is not so difficult for it to concentrate more on developing nations (Dibb & Simkin 2004). It serves its customers with low prices that would also be beneficial for it to expand in developing nations. In this way, it can be concluded that concentrating more on developing markets is a quite effective potential future strategy for Vodafone and for its assured future success.